

Management News

Business Conditions and Forecasts

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**President's
Scratchpad**

LAWRENCE A. APPLEY



Let's Not Neglect This Problem

RECENTLY a college professor showed me a paper written by one of his graduate students—a young man employed as an engineer. From a survey of his own position, and that of his colleagues in a number of companies, this young man had concluded:

"The forgotten man of our aggressive American civilization today is the so-called white collar worker, who is neither able to penetrate the lower fringes of management nor fall into the category of trades people and production workers as encountered in organized labor.

"The 'average' graduate engineer is in a unique position. He works in an office removed from actual production areas, and is generally regarded as part of the higher-ups by both the factory workers and society in general. Yet the engineer is subjugated to every whim and fancy of management. He rarely has the opportunity to participate in determining company policies, conditions of work, and rates of pay. His grievances are seldom settled to his satisfaction, and he is open to the threat of discharge and blacklist if he undertakes to better his position as an individual. . . . Out of many discussions, a conclusion was drawn . . . that until the day when a 'John L. Lewis' shall appear upon the scene and deliver his fellow engineers from the clutches of a static environment, the average engineer should try to gain employment with a firm that offers him the best possible advantages. It must be understood that such positions do not grow on trees but are found by a careful investigation, after which a diligent campaign to be employed by the concern must be conducted."

This statement has disturbing implications for management, not the least of which is the tendency of the young man and his friends to look to a 'John L. Lewis' for deliverance. Already there has been some movement toward unionization in professional fields, and while it is negligible as yet, it is a development to be watched. It would be fine to see management locking the stable door while the horse was still inside for a change. In the case of foremen, management got a second chance—through the Taft-Hartley Act—to correct its procedures and to show that it meant what it said when it claimed the supervisors were part of management. Now, even if the section of the Act dealing with foremen's unionization should be repealed, most companies are much less vulnerable on this score than they were a few years ago.

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Trends in Business

General Outlook

Unemployment dipped in October to 1.6 million, the lowest figure since the end of the war. National income this year is practically certain to top last year's record figures by several billion—in September it was running at an annual rate of \$214.6 billion, or only fractionally less than three times the 1939 level. Third quarter statements indicate that profits will set a new record.

The unfavorable indications are few, and do not seem especially significant. There have been scattered reports of layoffs this month, but the numbers involved are fairly negligible. Construction (Dun & Bradstreet, permit values) for October was down 6.7 per cent from a year ago, but still at a high figure. Department store sales have fallen below last year's totals for three weeks in succession, but unseasonable weather is blamed for much of the decline. Business failures in October increased more than seasonally to 461, the highest level since December, 1942, but were still considerably less than the 1,111 failures recorded in October, 1940.

Construction

In October, for the first time in 16 months, building permit values (Dun & Bradstreet, 215 cities) dropped below the corresponding month of the previous year. The total for the month was \$304,183,448, down 16 per cent from September and the smallest since February. Declines from 1947 occurred in all sections of the country except the West Central and Mountain States, which showed rises of 33.9 per cent and 68 per cent respectively. Largest drop was registered by the New England States where permits were off 18.4 per cent.

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President's Scratchpad

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But as things stand at present, it would be unwise to count on such second chances. Management did not get one in the case of production workers, it will be remembered.

Perhaps it might be thought that this young man is just a natural-born malcontent, or possibly one whose experiences have simply happened to be on the unfortunate side. I do not think the evidence points that way; I have heard similar complaints from other sources.

What, then, are the objectives of the young engineer? What are the economic opportunities he seeks, and possible adjustments management may make to meet his needs?

First of all the young engineer wants fair pay. There have been many complaints on this score—low starting salaries, slow rises, inadequate remuneration considering his professional status and the length of time he has put in preparing for his career, inadequate differentials over the pay of the organized hourly rated employees, too big a spread between the engineer and his superior. Grievances have arisen over companies' patent policies.

A satisfactory pay policy would seem to call for starting pay and base pay in line with the recommendations of the professional societies, and based on a good job evaluation plan kept always up to date. An important element in the engineer's pay, also, should be fringe benefits—insurance for sickness, accidents, old age and death, occasional leaves of absence. Careful consideration needs to be given to incentives. An annual bonus might be paid for good performance, a special bonus for special accomplishments. In addition, companies might consider a more liberal patent policy. Groups and individual engineers might put forth special effort if some kind of recognition were afforded by the company, perhaps in the form of a bonus.

Second, most people want a job that utilizes their capacities to the utmost. Yet at times engineers are put into routine jobs which could be equally well performed by persons with less specialized education. Another frequently mentioned grievance is lack of chance for advancement, and the haphazardness of the promotion procedure. Finally, much ill-feeling is aroused by the practice of having research-minded engineers report to production-minded executives who expect results daily.

Many of these difficulties might be eliminated by a system of "management alignment" under which engineers would be allocated proper managerial functions corresponding to their capacities. The feeling of being "buried in oblivion" might be alleviated by a personnel inventory describing the nature of the job, the responsibilities of the individual, and his performance, with a regular follow-up by a member of higher management. Training efforts are, of course, of great importance. The supervision of engineers might be more advantageously placed in the hands of men familiar with their needs, who could, to some extent, protect them against those overly concerned with immediate results.

Recognition and prestige are, of course, especially important for any professional, and often serve to compensate for other disadvantages attached to the job. The engineer, even more than other employees, resents being only one of many. As an illustration of what might be done, companies might consider giving more widespread permission for individuals or groups of engineers to publish findings where such publication would not be harmful to basic company interests. Leaves of absence to attend professional meetings, or possibly some university refresher courses, and regular meetings of the scientific personnel at the plant for presentation and discussion of papers all seem to contribute to job satisfaction.

Finally, free expression of opinion and fair treatment are rights that all democratic citizens expect in all phases of their activities, including their jobs. Yet one hears a good deal of complaint on the part of the engineers that their superiors are not sympathetic. The engineers say that they have no access to higher management, do not understand company policy properly, and are not consulted about it, cannot voice their suggestions and grievances properly. This difficulty might be overcome by regular formal or informal meetings between the engineers and various members of higher management. Some thought might also be given to improving the methods of airing complaints.

If business men—the industrial management leaders of today—expect to find qualified hands in which to place the future of their business and the nation's economic health, they cannot sit back and wait for tomorrow's engineers to come knocking at their office doors. They must actively engage in their development—now.

Lawrence A. Appleby

Trends in Business

(Continued from page 1)

Production

Moderate increases in over-all production raised the Federal Reserve Board's production index slightly above the 1947 figure, to a point almost double the 1935-39 average.

Steel output, at unprecedented peacetime levels in October, rose slightly this month, with the rate of production above 99 per cent of capacity. Production of soft goods has been rising this fall after a mid-year dip.

Corporate Earnings

National City Bank tabulations of the reports of 400 leading companies show earnings for the first nine months of the year running at an annual rate of 18.7 per cent on net worth, as compared to 16.0 per cent for the same period last year. Sales of the same companies were up 22 per cent over the sales for the first nine months of 1947.

Research

Checking Applicants' References

Executives seldom challenge the desirability of obtaining reports on an applicant from previous employers, school officers, and responsible persons currently acquainted with him, but the difficulty is that references are often unreliable. They tend either to over-praise the applicant or to criticize him unfairly; actual evaluations are rarely given. Moreover, there is scarcely any basis on which to estimate the competency of the respondents to give an opinion.

Where references are not checked, it is not to be assumed that the prospective employer does not verify the applicant's statements. There are some opportunities to do this in the interview, through tests, work exhibits, etc. Though recognizing that verification of the information is often essential, some companies consider it a waste of time and money to check references. Many others find it worthwhile for a negative reason: There is some likelihood that *serious* inefficiency, dishonesty, or other undesirable characteristics shown in the past will be indicated, while run-of-the-mill reports can be disregarded. Still other companies do not check references as a routine part of the employment procedure but do so when there is specific reason to get facts from sources other than the applicant or to corroborate information he has supplied.

Pertinence of information to the work determines the number and types of references to be investigated. It is quite common to check only on the last employment if it was with a well-known organization whose report will be acceptable. Some companies contact several persons who have been associated with the applicant in the recent past; others seek a fairly full report going back many years. Where extensive information is needed, quite a few companies continue to use credit bureaus and similar agencies for field investigations, such as were common during the war years.

For executive posts, and certain others strategic in the particular company, evaluations of the applicant may be obtained through visits or telephone conversations, and by personal letter. Names given by the applicant himself may not be followed up, as such references are often one-sided; instead, supervisors or the personnel manager ask acquaintances in the companies in which the applicant has worked to suggest those qualified to give an opinion.

The telephone is commonly used in checking references of applicants for higher-level positions, and for many others, too, especially when an immediate reply is needed. People seem to be more willing to speak frankly than to put the same comments in writing. But this verbal communication has a major disadvantage in companies where more than one person makes the decision to hire or not. Where the merits of each case are weighed by several persons or by a personnel committee, it is important to have a record of the report received by telephone.

Reference forms • A reference form is a common means of obtaining reports about an applicant. This may be either a letter or a card. In the latter case, of course, it should be enclosed in an envelope for the sake of privacy. The introductory paragraph of the reference form customarily reads something like this: "The above named applicant has applied to us for a position and has given your name as reference. It would be helpful to us in considering this applicant for a position with our organization if you would answer the questions listed below."¹

The ordinary form-letter inquiry is usually directed from the prospective employer to the previous one, but many companies save a great deal of time by designing their reference requests in the form of a letter from the applicant to his previous employer. The reply, of course, is sent to the prospective employer. One example of this type of reference inquiry which the applicant prepares himself for mailing by the prospective employer opens up with this introduction: "I have applied for a position with the [name of company] and would appreciate it if you would give them information on the questions listed below, and also any other information you believe to be pertinent to my application. I understand that your reply will be mailed to the [name of company] and will be kept confidential by them."

Quite a few companies are using a combination form in which the inquiry, the reply, space for the mailing address, and postage-free business envelope are all in one piece. This device is patented by Remington Rand, Incorporated, but the wording of the inquiry is determined by the individual company. These forms, of course, can be printed either as a letter from the prospective employer or from the applicant.

Past employers • To obtain replies to requests for references from past employers it is essential to identify the applicant correctly by giving as many of the following facts as are pertinent:

Name	Clock or badge number
Present address	Department
Address when working for the employer being queried	Supervisor
	Job
Social Security number	Dates of employment and final separation

Various approaches may be used to increase the proportion of replies to reference inquiries:

1. Design the reference form so that the reply may be written on the same card or sheet of paper, thus saving the other company the trouble of writing a letter.
2. Send a duplicate of the inquiry form so that the other employer may have a record of both the inquiry and his reply.
3. Enclose a postage-free business reply envelope.
4. Offer to reciprocate by answering similar requests.

Similarly, precautions may be taken to increase the reliability of the reports:

1. Promise to keep the reply confidential.
2. Quote, directly or indirectly, the release the applicant may have signed on the application for employment, releasing

¹ Further on is a composite list of questions asked on reference forms.

- his former employers from liability for damages arising from information they may give.²
- Keep items on the reference form specific, factual and few.
 - Inquire whether the information given has been obtained from records, the last supervisor of the applicant, or a representative in the personnel office.
 - Provide a rating scale if the reference form requests an estimate of the former employee's efficiency, personality or character.
 - Describe the job for which applicant is a candidate if the former employer's opinion is asked concerning the applicant's suitability for the position to be filled.

Some reference forms state that a decision on the applicant will be held in abeyance until references are received, thus appealing to the past employer's sense of responsibility. In practice, however, companies quite often employ an applicant before references are obtained. As a safeguard against serious misrepresentation of facts, many application forms contain a statement (which the applicant acknowledges by his signature) asserting the company's right to dismiss an employee if information given proves incorrect. Some employers believe this is a necessary precaution where the union agreement contains a provision regarding management's right to discharge employees. These are typical examples:

I hereby affirm that my answers to the questions on this application for employment are true and correct, and that I have not knowingly withheld any fact or circumstance that would, if disclosed, affect my application unfavorably. Further, I understand that misrepresentations or untruths are sufficient cause for dismissal.

I understand that any misrepresentation of facts on this application will be just cause for dismissal at the discretion of the company should I become its employee.

Following are items recurring frequently on reference forms in AMA's Personnel Workshop:

Is applicant's statement (above) concerning period of service with you, nature of duties, compensation received, and reasons for his separation correct?

If not, please indicate any error and give correct information.

Is applicant eligible for rehire with you? [Note: Usually, this question seems to be used to find out whether the applicant is on layoff status, subject to recall when suitable work is available.]

Would you reemploy this applicant?

Why did applicant leave your employ?

How long and by whom was he employed prior to his service with you?

How long and by whom was he employed after leaving your service?

Was he ever dismissed or suspended from any employment? If so, why?

In what capacity did you know this employee?

From official records?

As the employee's supervisor?

Did applicant's health in any way interfere with his or her work—if so, how?

Is this person's attendance record:

Very good

Fair

Good

Poor

While in your employ did he have the custody of money?

Were his accounts in satisfactory condition when he left?

As far as you know, did he have any financial trouble—have his income garnished or assigned? No Yes

² "I hereby authorize the companies or persons named in this application to furnish any true information regarding me or my employment whether or not it is on their records, personal or otherwise, thereby releasing said companies or persons from all liability for any damages whatsoever for issuing this information."

"In filling out this application form, I understand that the [prospective employer] may wish to investigate any of the facts or statements submitted by me. I hereby grant them permission to check any of this information except where my written statement upon this form specifically requests that no investigation be made. Where such authorized investigation is made I hereby release all companies and persons supplying information about my work, habit, character, or skill from liability for damages for giving such information."

Did he have any domestic trouble which interfered with his work? No Yes

Did he drink or gamble to excess?

How does he get on with

superiors?

How does he get on with

associates?

How does he get on with

subordinates?

Is he a disturber?

Do you know of any reason why this applicant should not be given an opportunity in this business?

Please give us any additional information you feel might be helpful to us.

His ability on your job

Average

Superior

Inferior

What is your opinion of the applicant's suitability for the position applied for?

References from schools • Inquiries to previous employers seem to be more common than those to educational institutions and the applicant's personal acquaintances; but where a particular educational background is a job requirement, confirmation of the applicant's claims of academic work completed is often sought. For example:

The above named person, who has submitted an employment application to us for employment as [position], referred to attending your institution.

Will you please answer briefly the questions below regarding your knowledge of the applicant's character, school record, and ability? A stamped self-addressed envelope is enclosed for your convenience, and your cooperation will be greatly appreciated.

1. During what period did the applicant attend your institution? From To

2. In general, what type of courses did the applicant take? (Please mention particularly any business or technical courses.)

3. Please specify diploma, certificate or degree awarded, if any, and date.

4. What was the applicant's approximate standing in the class? 1st quarter 2nd quarter 3rd quarter 4th quarter

5. How would you rate the applicant's participation in extra-curricular activities? Very active

Average

Not active

Please state types of activities.

6. Was applicant's attitude toward faculty and fellow students cooperative?

7. In your opinion is the applicant honest and trustworthy?

8. To the best of your knowledge does the applicant have desirable personal habits? Remarks:

9. So far as you know, is the applicant in good health?

10. We shall appreciate any constructive suggestions you may be able to give us regarding the prospective employee's habits or need for supervision if employed.

Signature: (Name and title of person supplying information)

Personal references • Character references from those who know the applicant personally may be helpful for certain types of jobs, such as those where the incumbent must represent the company to the public. Some companies request informal written references from present employees whom applicants claim to know. Following is a typical inquiry:

The above named person has applied to us for employment as [position], giving us your name as reference.

While we are interested in knowing this applicant's work ability, we would also like your opinion of his character. Is he a man of good habits and reputation in the community? May we ask, too, in what capacity you have known this applicant?

For your convenience, we have enclosed a self-addressed envelope that requires no postage. You may reply below if you wish. We assure you that the information you give us will be kept confidential and wish to thank you kindly for your assistance.

EILEEN AHERN

Listening Post

JAMES O. RICE



Profits • All signs point to a record year so far as profits are concerned. The Department of Commerce estimates corporate earnings for 1948 will total more than \$20 billion, after taxes, as compared with \$18.1 billion in 1947, and a mere \$8.4 billion in 1929.

Financial circles believe that industry need not be too concerned about the possibility of an excess profits tax—they don't think it is likely to materialize. Nevertheless, there is an important public relations aspect to the figures, which operating executives seem more concerned about than the financial group. With demands for a fourth round of wage increases shaping up, it's going to be necessary to convince employees, and the public at large, that the generally high profit level does not mean that companies have no cause to worry about costs.

The fact of the matter is that not all companies are sharing in the general bonanza; for a good many, 1948 results are below last year's. Further, even those companies which appear to be safely in the chips are stuck with high break-even points that could spell lots of trouble if the boom were to recede even slightly.

In the past, management has been articulate enough in its efforts to justify its profits, but not always entirely coherent. The public has a full realization of what inflation is doing to the purchasing power of wages, but it seems entirely unaware that the shrinkage of the dollar has an equal effect on dividends and company reserves. Further, industry seems to have had little success in getting across the idea that dividend payments have an important effect on the market for equity capital, which is much too tight now for comfort.

Depreciation reserves • The question of increased depreciation to take care of inflated replacement costs has been batted back and forth for several years now, but no standard procedure seems to have evolved. Some companies have set aside special reserves to cover the increased costs, but replies to AMA surveys indicate that the majority are still in the stage of merely worrying about the matter.

Equity capital • In regard to equity capital, one company writes: "If such capital is not likely to be available in any significant amounts and if the prospects for financing through retained earnings are likely to be limited by increased corporate taxation and declining volume, some managements may be led to revise plans for plant expansion. A good many companies have certainly gone as far as is desirable along the line of debt financing." Since plant expansion is one of the important elements in the present prosperity, any curtailment of it should be of genuine concern to the general public, as well as to business management.

Office salaries • According to BLS surveys, quoted by Robert R. Behlow, at the Office Management Conference, salaries of women office workers are higher on the West Coast than in other parts of the country. Taking San Francisco as 100, index numbers for ten other leading cities are as follows:

Oakland	95.8
Chicago	92.3
Seattle	91.5
New York	90.3
Dallas	82.2
Denver	80.6
Atlanta	80.1
Milwaukee	79.9
Buffalo	78.9
Boston	77.3

Insurance • Should all insurance be submitted for competitive bids at each renewal date? The practice has both support and opposition among insurance buyers.

Of a large group of representative companies replying to an AMA survey on the subject of the administration of insurance buying, some 55 per cent seek competitive bids. Of these nearly three-fourths report that broader coverage, lower insurance costs, or both, resulted.

However, Russell B. Gallagher, Manager, Insurance Department, Philco Corporation, and author of a forthcoming AMA research report on insurance buying, notes that the practice has definite disadvantages: "All risks take turns for better and for worse at different times. A carrier which is secure in the knowledge that it will be permitted to ride out the storm, within reasonable limitations, is more than likely to give maximum service if it is afforded the opportunity. It is not likely to be so cooperative if it is forewarned that past efforts are matters of history only, and will not be weighed with other and more current factors. This is the reason companies cancel insurance in mid-term. If they know they have no assurance of continued association, they drop the hot chestnuts as soon as they can."

Additional storage space • Schenley Distilleries has hit upon a plan which provides additional storage space through a mutual benefit agreement with suppliers. Ned Drucker described the idea at the AMA Production Conference:

Minimums and maximums were agreed upon by the two parties. The supplier contracts to keep the minimum quantity always available to Schenley, and Schenley, for its part, to purchase the specified maximum. Thus, Mr. Drucker said, "we are certain of a minimum inventory on which we can draw at all times, and it is sufficient to keep us going until the supplier can get set up and into production. The supplier, on the other hand, is able to use our materials as a fill-in for his own scheduling, and whenever he desires may run the difference between minimum and maximum." (This arrangement is only for bulky items on which there is a volume of movement.)

Activities of the AMA

Finance Meeting to Discuss Public Relations of Profits

Panel discussion of "The Public Relations of Profits" will be a feature of the AMA Finance Conference, scheduled for Thursday and Friday, January 20-21, at the Hotel Statler (formerly the Pennsylvania) in New York City.

The program is under the direction of Murray Shields, Vice President, Bank of the Manhattan Company, and AMA Vice President for the Finance Division. As is the case with all AMA conferences, it is designed to meet the needs of the members as expressed in answers to a survey conducted by the Association.

An address on "Economic Guideposts to Business Planning" will take a look at the probable future economic atmosphere, with special reference to the impact of the accelerated defense program, the policies of the Administration, and the backlog of demand. At the same session, "The Future Trend of Interest Rates" will be discussed.

A paper on "Inflation and Corporate Reserve Policies," a subject mentioned in almost every response to the survey, will be designed to present an impartial, objective appraisal of the various viewpoints and suggested solutions.

"Sources of Fund for Current and Future Capital Expansion" will be considered at a second panel session, and other papers will cover "Key Factors in Inventory Planning"; and "Appraisal of Management as a Credit Factor."

Members of the Finance Division Planning Council, which is assisting Mr. Shields with arrangements for the conference, include:

Malcolm S. Black, Secretary and Treasurer, Union Bag & Paper Corporation; Dr. Jules I. Bogen, Editor, the *Journal of Commerce*; Herbert E. Carnes, Treasurer, American Home Products Corporation; A. U. Fox, Treasurer, The American Thread Company; J. M. Friedlander, Vice President and Treasurer, Jewel Tea Company; Robert M. Green, Vice President and Treasurer, The Prudential Insurance Company of America; Chapin Hoskins, Institute for Trend Research; Mark Kemper, Secretary and Treasurer, Lumbermen's Mutual Casualty Co.; John MacDonald, Administrative Vice President, National Broadcasting Co.; Keith Powlison, Vice President & Controller, Armstrong Cork Company; J. F. Seal, Vice President and Treasurer, Socony Vacuum Oil Co.; and Charles L. Stillman, Vice President & Treasurer, Time, Inc.



MURRAY SHIELDS

Personnel Conference To Be Held Feb. 14-16

The Association will hold its Midwinter Personnel Conference February 14, 15, and 16 at the Palmer House, Chicago. John A. Stephens, Vice President, U. S. Steel Corporation of Delaware, and AMA Vice President for the Personnel Division, is in charge of the program, assisted by members of the Division Planning Council.

The "Personnel Workshop," an exhibit of personnel department forms and literature of all types will be on view during the conference, and will include, for the most part, entirely new material not exhibited at previous conferences. In order to make the Workshop as complete as possible, AMA is soliciting material in the following categories: employee magazines, wage and salary administration plans, merit rating forms, suggestion program material, employee handbooks, material on training programs, personnel forms and reports, annual reports to employees or reports to employees and stockholders jointly, company histories, material on benefit programs, tests, safety program literature, union contracts, supervisory and executive manuals and bulletins, special publications. An exhibit of labor union publications is planned also.

Film, 'And In Return' Shown at Conference

The visual aid film, "And in Return," which demonstrates how a normal working pace can be determined, and the relationship of performance to pay, was exhibited publicly for the first time November 18 at the AMA Production Conference in Chicago, with commentary by E. E. Moore, Vice President, Industrial Relations, Carnegie-Illinois Steel Corporation.

In commenting on the publication of the film, Mr. Moore stated, on behalf of the group of companies in the steel industry through whose cooperative sponsorship this film was produced by Motion Picture Productions, Inc., that, until such time as arrangements have been completed for distribution of this important visual aid, all inquiries concerning availability and price of prints of the film should be directed exclusively to American Associated Consultants, Inc., 3320 Grant Building, Pittsburgh, Pa., temporarily serving as sole distributing agents for the owner steel companies.

AMA Marketing Conference To Be Held March 17-18

The AMA Marketing Division will sponsor a two-day conference March 17-18 at the Hotel Statler, New York City. The program is being planned under the direction of W. E. Jones, Vice President, the Scranton Lace Company, and AMA Vice President for the Marketing Division.

